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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2016/2017

DFA5048 – FINANCIAL ACCOUNTING 4

(For Diploma Students Only)

08 MARCH 2017
09.00 a.m – 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 7 pages with 5 questions.
2. Answer **ALL** questions.
3. Write your answers in the answer booklet provided.

QUESTION 1**Part A**

Below is the Statement of Financial Position of Alpha Summit Berhad as at 31 December 2015.

Alpha Summit Bhd. Statement of Financial Position as at 31 December 2015		
	(RM)	(RM)
Non-current assets		
Equipment		1,710,000
Current assets		
Inventories	335,500	
Bank	285,000	620,500
		<u>2,330,500</u>
Authorized capital		
700,000 8% redeemable preference shares of RM1.50 each		1,050,000
500,000 ordinary shares of RM2.20 each		1,100,000
		<u>2,150,000</u>
Issued and paid up capital		
400,000 ordinary shares of RM2.20 each		880,000
Reserves		
Share premium	260,000	
Profit and loss account	<u>540,000</u>	800,000
Non-current Liabilities		
400,000 8% redeemable preference shares of RM1.50 each		600,000
Current Liabilities		
Trade payables	<u>50,500</u>	
		<u>2,330,500</u>

Alpha Summit Bhd. decided to redeem 60% of its redeemable preference shares at a premium of 30% on 1st February 2016. In order to finance the redemption, the company will make a fresh issue of 100,000 ordinary shares at a premium of 15% and the balance will be utilized from profit and loss account.

Instructions:

(a) Prepare journal entries to record the above transactions. (6.5 marks)

(b) Prepare the Statement of Financial Position after the completion of the redemption. (6.5 marks)

Continued...

Part B

Nanotech Bhd. registered with 450,000 8% preference shares of RM1.50 each and 700,000 ordinary shares of RM2.00 each. The company decided to issue 250,000 8% preference shares at par, payable in full during application and 400,000 ordinary shares at a premium of 20% each on the following terms:

On application	50 sen
On allotment	90 sen (including premium)
On 1 st call	70 sen
On 2 nd call	30 sen

Total applications received for ordinary shares were 650,000. However, the directors refunded the application monies to the 100,000 unsuccessful applicants and allotted the shares on pro rata basis among the remaining applicants. Any surplus money on application was used to pay up on allotment.

During the 1st call, there were two shareholders who held 15,000 shares each paid the 2nd call money together with the 1st call money. On the 2nd call, only 80% of monies due were received. The company incurred issue costs amounted to RM55,000.

Instructions:

- (a) Journalize the entries to record the above transactions. (10 marks)
- (b) Prepare the extract of the Statement of Financial Position for the company after the 1st call. (2 marks)

[TOTAL 25 MARKS]

QUESTION 2

- (a) Briefly explain the audit committee and what is their main responsibility. (2 marks)
- (b) Besides preparing financial statements, Companies Act 1965 requires specific disclosures to be made. List down the SIX (6) items that need to be disclosed. (6 marks)
- (c) One of the component in annual report is chairman's statement. Briefly explain what is chairman's statement. (2 marks)

[TOTAL 10 MARKS]

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QUESTION 3**Part A**

(a) State **TWO (2)** reasons for reconstruction on company's paid up capital. (2 marks)

(b) Briefly explain **THREE (3)** situations in which section 64 of Companies Act 1965 allows company to reduce its capital. (3 marks)

Part B

Aurora Bhd has incurred heavy losses and has been unable to pay its shareholders' dividends for a number of years. Given below is the Trial Balance as at 30 June 2016 extracted from the books of Aurora Bhd.

Aurora Bhd
Trial Balance as at 30 June 2016

	RM	RM
	(Dt)	(Cr)
Ordinary shares of RM1 each		2,100,000
5% Preference shares of RM1 each		900,000
Accumulated losses	1,800,000	
Trade receivables	165,000	
Inventories	189,000	
Trade payables		225,000
Land and building	600,000	
Plant and machinery	540,000	
Research and development	150,000	
Bills payable		60,000
Bank overdraft		166,500
Call in arrears	7,500	
(on 30,000 ordinary shares, RM0.25 each)		
	3,451,500	3,451,500

Aurora Bhd. has an authorized capital of 3,000,000 ordinary shares of RM1 each and 1,500,000 5% preference shares of RM1 each. Total of 2,100,000 ordinary shares have been issued and fully called up. However, calls in arrears of RM0.25 per share on 30,000 have not been received.

It was resolved to carry out the following scheme of capital reduction after all the statutory requirements were fulfilled:

1. To cancel the 30,000 ordinary shares which are not fully paid up.
2. To reduce the ordinary shares to RM0.10 per share and existing shareholders agreed to take up 2 fully paid up ordinary shares for every 1 held.
3. The preference shareholders to accept 7,500,000 ordinary shares of RM0.10 each in exchange for the 5% preference shares.
4. To write off the accumulated losses.

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5. The following assets were valued as to:

	RM
Land and building	649,500
Plant and machinery	390,000
Research and development	60,000
Inventories	150,000
Trade receivables	159,000

6. The authorized capital to be restored to RM4,500,000 in ordinary shares at RM1 each.

Instructions:

- (a) Prepare journal entries to record the above transactions. (10 marks)
- (b) Prepare capital reduction account. (5 marks)
- (c) Prepare Statement of Financial Position of Aurora Bhd. after the completion of the scheme. (5 marks)

[TOTAL 25 MARKS]

QUESTION 4

Cheesy Wedgy Enterprise was formed on April 2006 with a capital of RM35,000. Their main activity is catering services with three partners. The partners are Addy, Akim and Arel who shared a profit and losses in the ratio of 5:3:2 respectively.

After almost six years in operation, the business was recognized and the partnership decided to expand their business by converting into a limited liability company starting from 1st January 2016.

The new limited liability company is known as Super Deli Bhd where it was formed with an authorized capital of 170,000 5% preference shares of RM2.00 each and 300,000 ordinary shares of RM1.20 each. The three partners subscribed a total of 80,000 ordinary shares in Super Deli Bhd which immediately pay in cash.

For the sale and purchase agreement, it was agreed that the company should take over all non-current assets, prepaid insurance and all liabilities (except trade payables) of Cheesy Wedgy Enterprise for RM600,000.

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Statement of Financial Position of Cheesy Wedgy Enterprise as at 31 December 2015 is as follows:

Cheesy Wedgy Enterprise Statement of Financial Position as at 31 December 2015		
	RM	RM
Non-current assets		
Land and building	380,000	
Equipment	185,000	
Less: Accumulated Depreciation – Equipment		72,000
Motor vehicles	84,000	
Less: Accumulated Depreciation – Motor vehicles		22,000
Current assets		
Bank	57,000	
Trade receivables	51,500	
Inventories	18,500	
Prepaid insurance	24,000	
Owner's equity		
Addy, capital		210,000
Akim, capital		185,000
Arel, capital		150,000
Current liabilities		
Trade payables		85,000
Unearned service revenue		60,500
Sales taxes payable		15,500
	800,000	800,000

Additional information:

1. The fair values of the assets taken over as follow:

	RM
Land and building	445,000
Equipment	95,000
Motor vehicles	50,000
Trade receivable	48,000
Trademark	7,000

2. The purchase price to be settled by the issuance of ordinary shares of RM2.00 each (including premium) in Super Deli Bhd.
3. The liquidation expense of RM6,800 was to be paid by Cheesy Wedgy Enterprise.
4. Super Deli was to assist Cheesy Wedgy Enterprise in collecting trade receivables and paying the trade payables. Bad debts of RM3,500 were incurred on trade receivables.
5. Addy, Akim and Arel agreed to accept any remaining assets as part settlement of the amount due to them on liquidation of the company (based on profit sharing ratio).

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Instructions:

(a) Calculate the purchase price and goodwill. (2 marks)

(b) Prepare journal entries to close the book of Cheesy Wedgy Enterprise. (10 marks)

(c) Prepare journal entries to open the book of Super Deli Bhd. (6 marks)

(d) Prepare Extract of Statement of Financial Position of Super Deli Bhd after the acquisition of Cheesy Wedgy Enterprise (for equity part only) (2 marks)

(Show all your workings).

[TOTAL 20 MARKS]

QUESTION 5

Given below are the financial information of Dutch Bhd and Lady Bhd as at 31 January 2017:

	Dutch Bhd (RM)	Lady Bhd (RM)
Land and building	320,000	300,000
Plant and machinery	270,000	295,000
Copyrights	53,500	-
Cash at bank	170,000	145,000
Account receivables	110,000	105,000
Inventories	102,500	93,800
Prepaid expenses	38,000	22,200
Accumulated depreciation – Plant and machinery	100,000	87,000
8% Preference Shares of RM1 each	300,000	250,000
Ordinary Shares of RM1 each	450,000	400,000
Retained profit	80,000	115,000
6% debentures	60,000	55,000
Account Payables	74,000	54,000

On 1st February 2017, both companies were agreed that Dutch Bhd was to acquire Lady Bhd. Dutch Bhd was to purchase all assets and liabilities in Lady Bhd during the date of acquirement. RM8,000 of liquidation expenses of Lady Bhd was paid by Dutch Bhd.

The purchase considerations are as follow:

8% preference shares in Dutch Bhd of RM1 each, at par	RM 294,000
Fully paid ordinary shares in Dutch Bhd valued at RM1.40 each	686,000
6% debentures	70,000

The fair value of the assets taken over are as follows:

Plant and machinery	RM 208,000
Account receivables	97,000
Inventories	125,000

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Instructions:

(a) Calculate the goodwill of acquiring Lady Bhd. (3 marks)

(b) Prepare journal entries to close the books of Lady Bhd. (10 marks)

(c) Prepare journal entries to record the absorption of Lady Bhd in the books of Dutch Bhd. (7 marks)

(Show all your workings).

[TOTAL 20 MARKS]

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